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VECTOR AEROSPACE ANNUAL REPORT 2001

VECTOR
AEROSPACE

VECTOR AEROSPACE

With revenue in 2001 of $347 million, Vector Aerospace is one of the leading independent providers of aviation repair and overhaul services in the world. Through facilities in Canada, the United States and the United Kingdom, it provides services to commercial and military customers for various types of gas turbine engines, components and helicopter airframes. Its worldwide clients include commercial passenger and cargo airlines, helicopter service companies, government agencies, militaries and public use operators. Principal operations include Atlantic Turbines, Sigma Aerospace, Alameda Aerospace, ACRO Aerospace, Helipro and Pathix. Vector Aerospace has approximately 1,400 employees.

MISSION STATEMENT

Vector Aerospace is committed to increasing profitability by creating higher levels of customer and employee satisfaction.

We will achieve this by:

- Having the right products and services available to meet our customers' needs
- Making the most efficient use of available resources
- Delivering quality services on a timely basis and at the best value
- Fostering a positive working environment for our people and treating them with respect
- Putting safety above all else

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HIGHLIGHTS

Revenue	$ 347.0 Million
EBITDA	$ 44.2 Million
Net earnings excluding asset impairment charge [Note 1]	$ 15.9 Million
Net loss	$ 13.5 Million

RESULTS AT A GLANCE

(in thousands of Canadian dollars, except per share amounts)

	2001	2000
OPERATING SUMMARY		
Revenue [Note 1]	$ **346,983**	$ 297,609
EBITDA	**44,161**	46,877
Net earnings excluding asset impairment charge [Note 1]	**15,893**	20,665
Net (loss) earnings	**(13,510)**	20,665
FINANCIAL POSITION		
Working capital	$ **100,970**	$ 90,842
Total assets	**383,188**	403,577
Total debt	**163,180**	161,013
Shareholders' equity	**127,286**	138,721
PER SHARE (Basic & Diluted)		
Weighted average number of common shares outstanding		
-Basic	**28,381**	28,346
-Diluted	**28,381**	28,380
EBITDA	**$1.56**	$1.65
Net earnings excluding asset impairment charge	**$0.56**	$0.73
Net (loss) earnings	**($0.48)**	$0.73

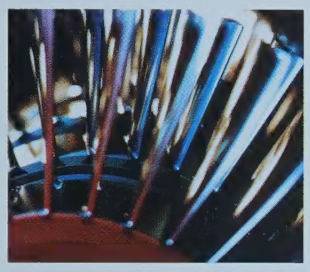
Note 1 - See definition of non-GAAP measures in Note 1 of the attached MD&A.



"The strategy of diversification within the R&O sector serves us well."



L-R: Ellen Stewart, Maxwell Parsons, Mark Dobbin, Paul Conway, Rachel Hayes, Brian Whitehead, and Derrick Doiron





REPORT TO SHAREHOLDERS

When Vector was created almost 4 years ago, we viewed the repair and overhaul (R&O) sector of the global aerospace industry as one with compelling fundamentals. Given the size, diversity and global nature of this market, we saw many opportunities to build upon a solid foundation.

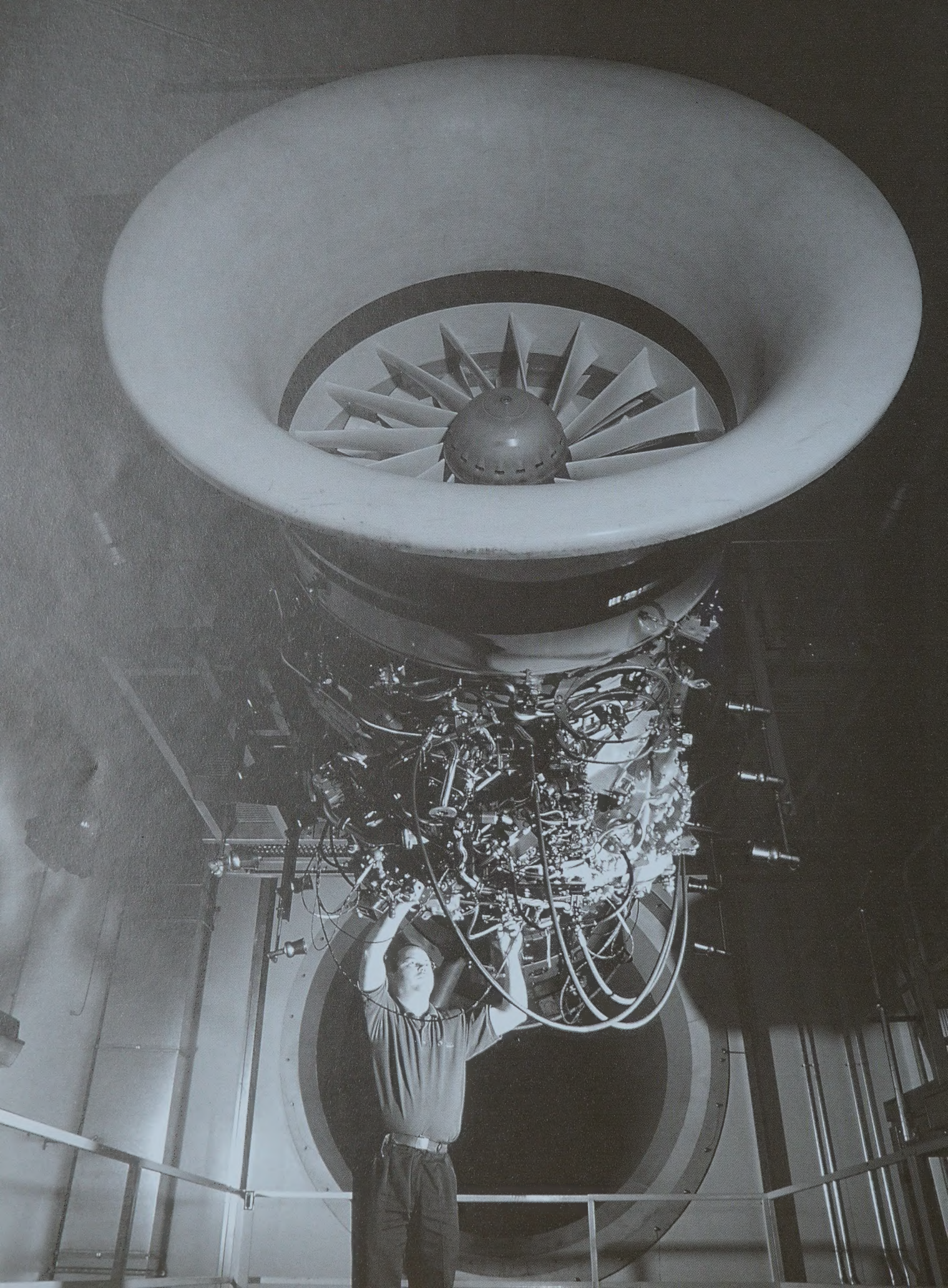
Since our formation, Vector's team of dedicated employees has worked hard to build a diverse portfolio of products and services through a combination of business acquisitions, the addition of new product licences and internal development.

We developed a growth strategy to capitalize on the market's requirement for a company with a broad range of products and services. We recognized the stability inherent in servicing a diverse client base.

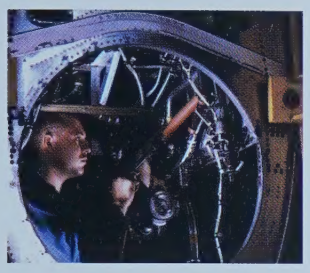
The tragic events of September 11th tested this strategy in ways no one ever imagined. We, like all companies affected, have reevaluated our business plan in light of these changes.

How did your company survive the turmoil and what are its prospects for the future?

The strategy of diversification within the R&O sector serves us well. While some individual product lines were adversely affected, Vector's broad portfolio of products and services protected us from the worst effects of the aviation downturn. More importantly, we are financially healthy and well-positioned to address the future.







While we withstood the worst, we did not fully escape the effects of the shock waves. Many valued customers, primarily within our fixed-wing segment, were deeply challenged in the aftermath of the tragedy. Product lines servicing these customers were likewise challenged.

Although representing only 24% of total revenue, the downturn in the passenger airline market was so severe that results for our entire fixed-wing segment were depressed. Alameda, in particular, felt the brunt of the turmoil. Given the impact on the fixed-wing segment, we felt it prudent to take an after-tax asset impairment charge of $29.4 million and to review strategic alternatives for realizing value from our Alameda operation. While this action was difficult to take, it does better position Vector for the future.

OUTLOOK

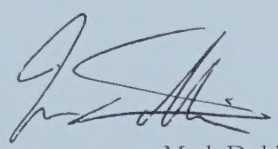
Our strategy for the long-term calls for continued growth through new customers, additional product lines and selective acquisitions. We remain committed to building our diverse portfolio of products, services and customers to provide the stable base needed for long-term growth.

In the shorter term, we feel it is important to temper our growth plans in line with current market conditions. We have delivered solid growth by reinvesting our cash flow in business development opportunities. Vector now plans for moderate short-term growth with an emphasis on debt reduction.

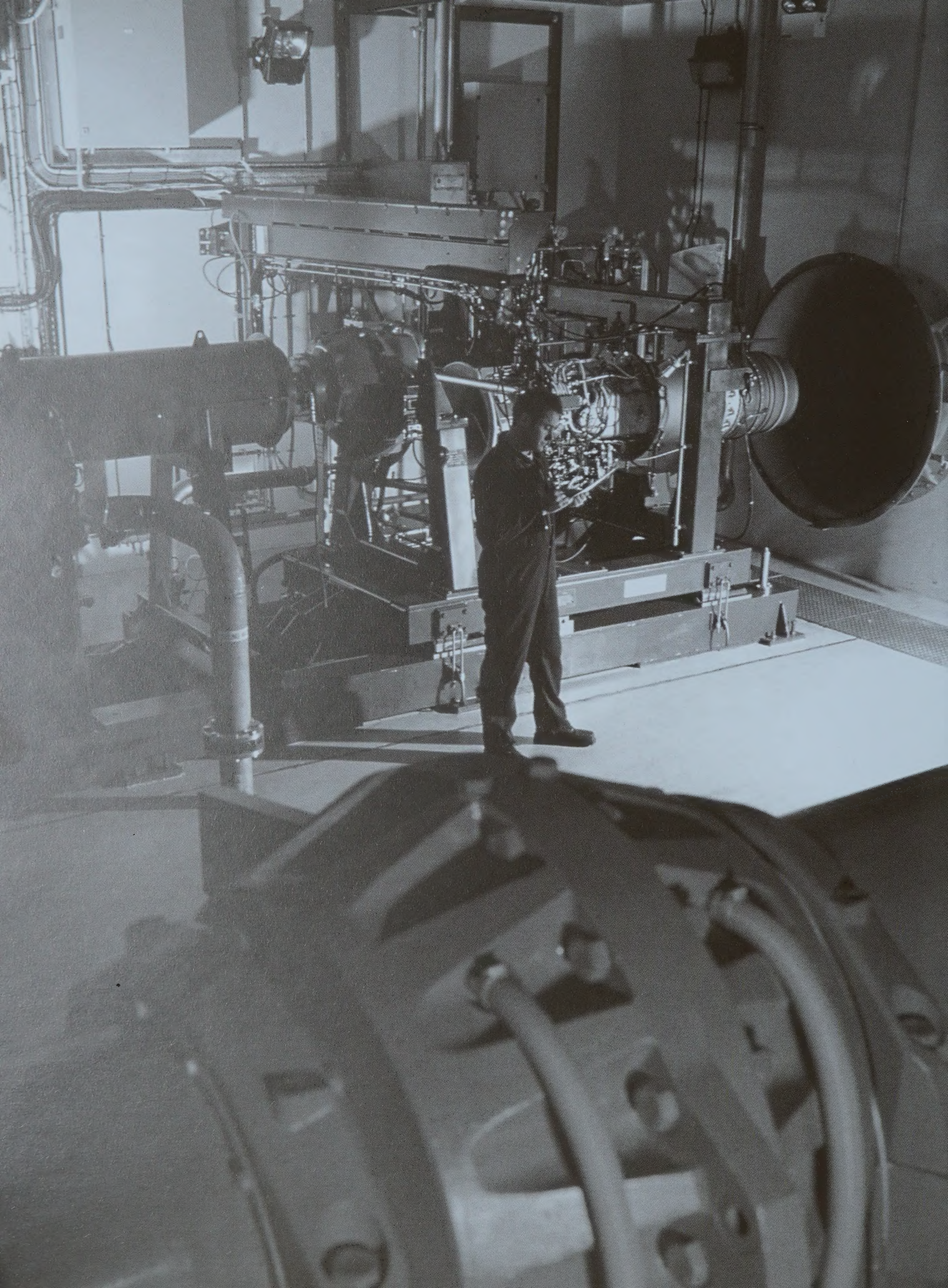
In the year ahead, Vector will continue to increase its leadership position in the helicopter repair and overhaul market through growth in revenue and operating margins, with emphasis on opportunities in military and public use markets. Vector will market its diverse capabilities and proprietary modification and upgrade programs to create opportunities with new and existing customers.

Our fixed-wing segment is experiencing a slow but steady recovery of revenue as our customers return to normal levels of operation. Development of our new product lines at ATI will continue to further broaden our customer base into the corporate market. At Sigma we have challenged ourselves to achieve higher revenue and better margins from existing product lines.

2001 has been a challenging year for Vector. Success in many areas was overshadowed by the negative impact of the events of September 11th. In a difficult year your company was able to grow its top line by 15%. In 2002 we will bring to bear the same energy and dedication to deliver increased cash flow and bottom line earnings.



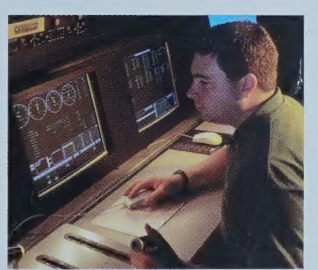
Mark Dobbin
Chairman



"We are proud of our technical competence and the commitment of our people."







OPERATIONS REPORT

Leadership. Quality. Service. These are the elements that unite Vector's business segments into a formidable independent force in aviation repair and overhaul. This includes the world's largest full-service helicopter repair and overhaul business and a rapidly expanding fixed-wing engine R&O business.

OUR STRENGTHS

Our corporate strengths include:

- A balanced portfolio of products and services
- A divisional structure focused on specific aviation sectors
- An industry-wide reputation for customer service and quality
- A loyal and productive team of employees

OUR PEOPLE

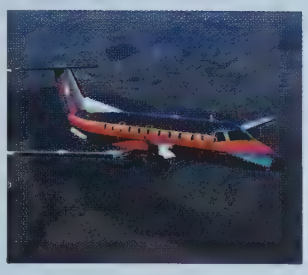
The delivery of quality service is only possible with a skilled and highly motivated workforce. Vector's emphasis on people and their ongoing development has contributed to ever-increasing levels of productivity and low employee turnover rates. We are proud of our technical competence and the commitment of our people. Vector will continue its successful internal training programs and its partnerships with technical colleges such as Holland College in Prince Edward Island, Cranfield University in the United Kingdom and the British Columbia Institute of Technology.

MAXIMUM EFFICIENCY

A corporate culture of performance excellence ("Best in Class") and continual improvement contributed greatly to establishing Vector as a recognized leader in aviation aftermarket support. In keeping with Vector's strategy for 2002, the Company is structuring its activities for maximum internal efficiency and is combining financial prudence with controlled corporate growth.







2001 Overview

Fixed-wing Segment

Results in the fixed-wing segment of the Company's operations in 2001 were mixed. For much of the North American aviation industry, September 11th precipitated a deep and prolonged slowdown in activity.

Alameda Aerospace experienced the most severe impact. Its portfolio of services includes accessories, components and auxiliary power units (APUs) primarily used on older generation jet aircraft as well as some military applications. Unfortunately these older commercial aircraft were the first to be withdrawn from service as passenger activity decreased. As a result, revenues for the year fell short of expectations.

The general aviation slowdown also impacted Atlantic Turbines' third and fourth quarters. The Pratt and Whitney PW100 product line showed a reduction in activity as passenger loads decreased and operators sought to preserve cash. The Pratt and Whitney PT6A engine, a new product line introduced at Atlantic Turbines in 2000, had a strong 2001. Activity prior to September was ahead of projections, followed by a moderate slowdown at the end of the year.

In 2001 Atlantic Turbines began performing light maintenance work on a second new product line, the Pratt and Whitney JT15D engine. Results were better than anticipated. Heavy maintenance R&O will begin once test cell construction is complete. The JT15D will be tested in a new 30,000-pound thrust cell under lease from the Province of Prince Edward Island.

Sigma Aerospace primarily services military customers from around the world. Two of its primary military product lines are the Rolls Royce T56 engine and the Rolls Royce Conway engine, used by the UK Ministry of Defense's fleet of VC-10 mid-air refueling jets. Revenue in 2001 on both the T56 and Conway were lower than 2000 as a result of reduced customer requirements. Margins on both product lines were lower than expected due to product mix and the completion of several low margin jobs. However, with military spending increasing, opportunities in this market remain strong.

The Dart, Sigma's third major engine line, experienced a slow year with revenue below expectations. The original equipment manufacturer (OEM), Rolls Royce, delayed finalizing an airworthiness directive (AD) for a modification to all in-service engines until late 2001. As a result, where possible, operators deferred normally anticipated maintenance to allow them to consolidate the AD modification with normal maintenance. With the AD now approved, activity on the Dart line is increasing to normal levels.



"Market changes are creating more opportunities in military and public use sectors and renewed interest in life extension upgrade programs."



UH1 to Huey 2 upgrade for New York State Police





Helicopter Segment

Through ACRO Aerospace and Helipro, Vector services helicopter operators in a wide range of markets such as the resource sector, including offshore; corporate and tourism; health care and public safety; para-public and military. With a broad customer base covering North and South America, Asia and Europe, Vector is truly a major player in the helicopter repair and overhaul industry.

ACRO services turbo shaft engines, drivetrains and components while Helipro focuses on helicopter airframe repair, components and modification programs. These combined capabilities have enabled Vector to improve the quality of its customer base, focus on opportunities that generate higher margins and capitalize on modification and upgrade programs that have been developed internally.

ACRO and Helipro had a very successful 2001, with revenue exceeding the previous year's results on essentially all product lines and with margins remaining strong. Vector's helicopter segments delivered a net reduction in working capital on higher levels of activity. We have been successful in strengthening our customer base and building military business. Modification and upgrade programs have played a role in attracting new customers and increasing the level of business with existing customers.

Market changes are creating more opportunities in military and public use sectors and a renewed interest in helicopter life extension upgrade programs. With a focused approach and a valued portfolio of services, Vector is well positioned to adjust in order to capitalize on this changing market. We have tailored our growth plans and expectations with a view to building on our internal strengths and positioning ourselves to seize opportunities as they arise.

VECTOR'S CAPABILITIES

GAS TURBINE ENGINES

		INSTALLED ON AIRCRAFT TYPE
ATLANTIC TURBINES		
Pratt & Whitney Canada	PW100 Series	De Havilland - Dash 8 Series 100, 200, 300 ATR (Regional) - Series 42, 72 Embraer 120; Dornier 328
	PT6A Series	Raytheon - King Air, Beach 99, Beech 1900 De Havilland - DH6 Twin Otter
	JT15D Series	Cessna Citation; Raytheon Beechcraft
ALAMEDA AEROSPACE		
Honeywell	GTCP 36 and 85 Series APUs	Boeing 727, DC9, MD80, 737 - 100, 200, 300, 400, 500 Lockheed - C130 Hercules, P3 Orion Fokker - F28, 70, 100, ATP, Jet Stream 31, CRJ 100-200, BAe 146, Saab 340, EMB 120-145, ATR 42-72 Various Falcon, Cessna, Lear and other business jets
ACRO AEROSPACE		
Pratt & Whitney Canada	PT6T Series	Bell - 212, 412; Sikorsky - S-58T
Turbomeca	Arriel 1	Sikorsky - S-76A+, S-76C Eurocopter - AS 365N2, BK 117C1, AS350 Series Agusta - A109K2
General Electric	T58 (military) CT58 (civil) T64 T700	Boeing - Labrador; Sikorsky - Sea King Sikorsky - S61; Boeing H46 De Havilland - Buffalo Westland/Agusta - Cormorant
Rolls-Royce	RR 250	MD Helicopters - 500/600 Series Agusta - 109A Bell - 206, 407 Eurocopter - AS350, AS355, B0106 Sikorsky - S-76A; Soloy Hiller
SIGMA AEROSPACE		
Rolls-Royce	Dart Series 6, 7, 8, 10	Friendship FH227; Hawker Siddley HS748 Gulfstream G1; Fokker F27 NAMC YS11, Lockheed - Convair 640
	Conway	BAe - VC10
	Allison T56 (military)	Lockheed - C130 Hercules, P3 Orion
	Allison 501D (civil)	Lockheed L188 Electra, L100; Convair 580
	Allison 501K	Industrial Turbine
Honeywell	ALF502, LF507 (engine testing)	BAe 146

ACCESSORIES

ACRO AEROSPACE

OEM		
Sikorsky	Fuel, hydraulic and electrical accesories	Sikorsky - S-76, S-61 & military derivatives
Bell		Bell - 204, 205, 206, 206L, 212, 214, 407, 412
Eurocopter		Eurocopter- AS350 (AStar/Ecureuil) - AS355 (TwinStar/Twin Ecureuil)
Breeze-Eastern		All Bell
Chandler Evans		Sikorsky - S-76, S-61
Honeywell		Eurocopter- AS350 (AStar/Ecureuil) - AS355 (TwinStar/Twin Ecureuil)

DYNAMIC COMPONENTS

ACRO AEROSPACE

OEM		
Sikorsky	All drive train dynamic components	Sikorsky - S-76, S-61 & military derivatives
Eurocopter		Eurocopter- AS350 (AStar/Ecureuil) - AS355 (TwinStar/Twin Ecureuil)

HELIPRO

Bell		Bell - 204, 205, 206, 206L, 212, 214, 407, 412

AIRFRAME & OTHER MAINTENANCE

HELIPRO

OEM		INSTALLED ON AIRCRAFT TYPE
Sikorsky	Airframe structures, avionics, wiring, composite repair, line maintenance, major and depot level maintenance, manufacturing and fabrication	Sikorsky - S-76, S-61 & military derivatives
Bell		Bell - 204, 205, 206, 206L, 212, 214, 407, 412, UH-1 Series, Super Huey
Eurocopter		Eurocopter- AS350 (AStar/Ecureuil) - AS355 (TwinStar/Twin Ecureuil)

SIGMA AEROSPACE

Hamilton Standard	54H60 propeller	Lockheed - C130 Hercules, L100, P3 Orion
Dowty Rotol	Various propellers Including R193, R212, R184 & R257	Fokker F27
		Hawker Siddley HS748
		Gulfstream G1
		Friendship FH227

ALAMEDA AEROSPACE

Various	Avionics, instruments and accessories	Boeing, Airbus, Lockheed, BAe, Lear, De Havilland, Bombardier, Fokker, Saab, Sikorsky, McDonnell Douglas, Beech, Fairchild, CASA



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atlantic turbines

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[illegible]

pathix

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Vector Aerospace Corporation

Consolidated Financial Statements

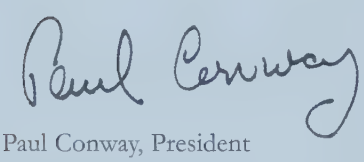
December 31, 2001 and 2000

Management's Responsibility for Financial Reporting

Management is responsible for the integrity and objectivity of the financial information presented in this Annual Report. The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada. The financial information presented elsewhere in this report is consistent with that shown in the accompanying consolidated financial statements.

Management is also responsible for developing and maintaining the necessary systems of internal controls to provide reasonable assurance that transactions are authorized, assets safeguarded and that the financial records form a reliable base for preparation of accurate and timely financial information.

The Board of Directors is responsible for ensuring management fulfills its responsibilities for financial reporting and internal control. The Board carries out this responsibility principally through its Audit Committee. The Audit Committee of the Board of Directors, which consists solely of non-management directors, reviews the consolidated financial statements and recommends them to the Board for approval. The shareholders' auditors have full and unrestricted access to the Board of Directors and the Audit Committee and meet periodically with them to discuss audit, financial reporting and related matters.



Paul Conway, President
& Chief Operating Officer

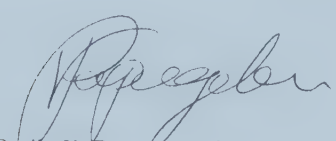


Maxwell Parsons, Vice President,
Chief Financial Officer & Secretary

Audit Committee Report

To the Shareholders of Vector Aerospace Corporation

The Audit Committee oversees the financial reporting process on behalf of the Board of Directors. In order to carry out this responsibility, the Committee, composed entirely of Directors independent of management, meets quarterly to review the Company's financial statements and recommends their approval to the Board of Directors. The Audit Committee also reviews, on a continuing basis, any reports prepared by the Company's external auditors relating to its accounting policies and procedures, as well as its internal controls. Financial information prepared for securities commissions and such regulatory bodies is also examined by the Audit Committee before filing. The Committee meets independently with management and the external auditors to review the involvement of each in the financial reporting process. These meetings are designed to facilitate any private communication with the Committee desired by each party. The Audit Committee recommends the appointment of the Company's external auditors, who are elected annually by the Company's shareholders.



Basile E. Papaevangelou
Chairman of the Audit Committee

Auditors' Report

To the Shareholders of Vector Aerospace Corporation

We have audited the consolidated balance sheets of Vector Aerospace Corporation as at December 31, 2001 and 2000 and the consolidated statements of operations, shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Canada. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2001 and 2000 and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in Canada.

Ernst & Young LLP

Chartered Accountants

St. John's, Canada
January 25, 2002

Consolidated Balance Sheets

December 31 (in thousands of Canadian dollars)
Incorporated under the laws of Canada

	2001	2000
Assets (Note 7)		
Current assets		
Receivables (Note 11)	$ **68,989**	$ 58,957
Work in progress	**53,468**	75,108
Inventory	**120,277**	114,248
Prepaid expenses	**1,630**	1,913
	244,364	250,226
Capital assets (Note 5)	**83,319**	91,439
Goodwill and other assets (Note 6)	**55,505**	61,912
	$ **383,188**	$ 403,577
Liabilities		
Current liabilities		
Bank indebtedness (Note 7)	$ **51,546**	$ 45,015
Payables and accruals	**58,657**	76,852
Deferred revenue	**9,960**	2,886
Income taxes payable	**3,419**	9,679
Future income tax liability (Note 12)	**2,438**	2,539
Current portion of long-term debt (Note 7)	**17,374**	22,413
	143,394	159,384
Long-term debt (Note 7)	**94,260**	93,585
Other credits (Note 8)	**18,248**	11,887
Shareholders' equity	**127,286**	138,721
	$ **383,188**	$ 403,577

Commitments and contingencies (Notes 7, 8 & 17)

On Behalf of the Board

Director

Director

See accompanying notes

Consolidated Statements of Operations

For the Year ended December 31

(in thousands of Canadian dollars, except per share amounts)

	2001	2000
Revenue	$ 346,983	$ 297,609
Operating expenses	302,822	250,732
Earnings before undernoted items	44,161	46,877
Amortization	8,480	4,846
Earnings from operations before asset impairment charge	35,681	42,031
Asset impairment charge (Note 15)	31,487	--
Earnings from operations	4,194	42,031
Interest expense (Note 7)	12,977	10,486
(Loss) earnings before income taxes	(8,783)	31,545
Income taxes (Note 12)	4,727	10,880
Net (loss) earnings	$ (13,510)	$ 20,665
Net (loss) earnings per share - basic and diluted (Note 13)	$ (0.48)	$ 0.73

Consolidated Statements of Shareholders' Equity

For the Year ended December 31

(in thousands of Canadian dollars)

	2001	2000
Retained earnings, beginning of year	$ 52,686	$ 32,021
Net (loss) earnings	(13,510)	20,665
Retained earnings, end of year	39,176	52,686
Capital stock (Note 9)	89,191	88,996
Currency translation adjustment (Note 10)	(1,081)	(2,961)
Total shareholders' equity	$ 127,286	$ 138,721

See accompanying notes

Consolidated Statements of Cash Flows

For the Year ended December 31

(in thousands of Canadian dollars)

	2001	2000
Operating activities		
Earnings from operations	$ **4,194**	$ 42,031
Items not involving cash		
Amortization	**8,480**	4,846
Asset impairment charge	**31,487**	--
Cash flow from operations before interest and income taxes	**44,161**	46,877
Interest expense	**(12,977)**	(10,486)
Current income taxes	**(1,627)**	(8,190)
Cash flow from operations before changes in non-cash working capital	**29,557**	28,201
Change in non-cash working capital (Note 14)	**(19,611)**	(8,951)
	9,946	19,250
Financing activities		
Increase (decrease) in bank indebtedness	**5,722**	(3,174)
Long-term debt borrowings	**10,507**	39,901
Long-term debt repayments	**(16,468)**	(19,986)
Government grants	**3,723**	4,114
Capital stock issuances	**195**	145
	3,679	21,000
Investing activities		
Business acquisitions (Note 4)	**(2,433)**	(2,438)
Capital asset additions	**(11,724)**	(29,391)
Other assets	**(438)**	(8,992)
Other	**970**	571
	(13,625)	(40,250)
Change in cash, and balance beginning and end of year	$ **--**	$ --

See accompanying notes

1. BASIS OF PRESENTATION

Vector Aerospace Corporation (the "Company") is a leading independent provider of aviation repair and overhaul services. Through facilities in Canada, the United States and the United Kingdom it provides services to commercial and military customers for various types of gas turbine engines, components and helicopter airframes. These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries and have been prepared by management in accordance with accounting principles generally accepted in Canada.

The preparation of these consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting periods. By their nature these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future periods could be material.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

TRANSLATION OF FOREIGN CURRENCIES

Transactions denominated in foreign currencies are translated into Canadian dollars at the rate of exchange in effect at the beginning of the month in which the transaction occurred. Monetary assets and liabilities are translated into Canadian dollars at the year-end exchange rate. Non-monetary items are translated at historical rates. All exchange gains and losses are included in earnings, except for unrealized exchange gains and losses on translation of long-term debt which are deferred and amortized on a straight-line basis over the remaining term of the debt.

The Company's foreign subsidiaries are financially and operationally self-sustaining. Accordingly, their assets and liabilities are translated into Canadian dollars at the year-end exchange rates. Revenue and expense items are translated at monthly exchange rates. The resulting gains or losses are deferred as a separate component of shareholders' equity until realized.

INVENTORY

Inventory is valued at the lower of average or actual cost, and net realizable value or replacement cost, as applicable. The cost of overhauled inventory includes the cost of raw materials, direct labour and related overhead.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

CAPITAL ASSETS

i) Amortization

Capital assets are amortized over their estimated useful lives as follows:

ASSET	METHOD	RATE
Equipment	Declining balance	10% to 20%
Buildings & test cells	Declining balance	5%
Leasehold improvements	Straight-line	Term plus one renewal

ii) Provision for renewal of rental engines

Overhaul costs associated with the renewal of rental engines are expensed over the service life of the engine based on flight hours.

GOODWILL AND OTHER ASSETS

i) Goodwill

Goodwill represents the unamortized excess of the cost of investments in subsidiaries over the fair value of the identifiable net assets acquired and is amortized to earnings on a straight-line basis, over its estimated life of forty years.

ii) Licence fees

Licence fees are amortized at variable percentages of cost ranging from 2% to 6% over twenty years based on the expected benefit to be derived in each year.

iii) Pre-operating expenses

The Company defers expenditures net of incremental revenues incurred to develop significant new lines of business. Deferral occurs where the expenditure is incremental in nature and directly related to placing the new business into service, and is considered by management to be recoverable from the future operations of the new business. Deferral ceases when the business is ready to commence commercial operations. Pre-operating expenses are amortized over a period of five years to match the pattern of projected benefit.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

iv) Deferred charges

Deferred charges are amortized on a straight-line basis over a maximum of five years.

The carrying value of goodwill and other assets is evaluated for potential permanent impairment on an ongoing basis. In order to determine whether permanent impairment exists, management considers financial condition, as well as expected pre-tax earnings, cash flows or market-related values. Any permanent impairment is written off against earnings in the year the impairment is recognized.

CAPITALIZED INTEREST

Interest on funds used to develop or construct capital and other assets is capitalized until the assets are put in productive use.

GOVERNMENT ASSISTANCE

Government assistance relating to the acquisition of facilities and equipment is recorded as a deferred credit. These credits are amortized over the lives of the assets to which they relate on the same basis as the asset is amortized. Government assistance relating to operating expenses is applied against the related expense at the time earned.

WARRANTY PROVISION

The estimated liability for costs to be incurred as a result of future warranty claims is recorded in the period in which the revenue is recognized on the basis of warranty terms and historical experience.

REVENUE RECOGNITION

Revenue, including revenue on contracts which is invoiced prior to work being performed, is recognized on the percentage of completion basis and measured on the basis of the sales value of actual costs incurred and work performed. Anticipated losses, if any, are fully provided for in the period in which they become apparent.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

PENSION COSTS AND OBLIGATIONS

The Company has defined contribution and defined benefit pension plans covering its employees. In valuing pension obligations for its defined benefit plans, the Company uses the accrued benefit actuarial method prorated on services and best estimate assumptions. Pension plan assets are valued at current market values. Adjustments to pension costs are amortized on a straight-line basis over the expected average remaining service life of the plan participants.

INCOME TAXES

The Company uses the liability method of accounting for income taxes. Under this method future tax assets and liabilities are determined based on differences between the financial reporting and tax basis of assets and liabilities and measured using the tax rates substantively enacted at the balance sheet date.

STOCK-BASED COMPENSATION PLANS

The Company has two stock-based compensation plans which are described in Note 9. No compensation expense is recognized for these plans when stock or stock options are issued to employees. Any consideration paid by employees on exercise of stock options or purchase of stock is credited to share capital.

INTEREST RATE RISK MANAGEMENT

The Company has entered into interest rate swap agreements in order to manage the interest rate exposure associated with certain debt obligations. Differences in interest rates giving rise to a payable or receivable under interest rate swap agreements are accrued and recognized as adjustments to interest expense.

COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current year's presentation.

3. CHANGE IN ACCOUNTING POLICY

EARNINGS PER SHARE

The Canadian Institute of Chartered Accountants has issued a new accounting policy with respect to earnings per share which has been adopted by the Company effective January 1, 2001. The Company has changed from the imputed earnings to the treasury stock method of accounting for diluted earnings per share. In accordance with the treasury stock method diluted earnings per share is computed using the weighed average number of common shares and dilutive common share equivalents. The policy has been applied retroactively and adoption of this standard had no impact on the prior year's diluted earnings per share calculation.

4. BUSINESS ACQUISITIONS

During the year the Company recorded contingent purchase consideration related to acquisitions completed in 1999 which has been allocated to goodwill in the amount of $2,433,000 (2000 - $2,438,000).

5 CAPITAL ASSETS

	2001	2000
Equipment		
Cost	**$ 90,219**	$ 78,654
Accumulated amortization	**(36,686)**	(19,835)
Provision for renewal of rental engines	**(2,157)**	(1,193)
	51,376	57,626
Buildings and test cells		
Cost	**24,366**	23,655
Accumulated amortization	**(3,653)**	(2,548)
	20,713	21,107
Leasehold improvements		
Cost	**13,388**	11,734
Accumulated amortization	**(6,906)**	(3,627)
	6,482	8,107
Land	**4,748**	4,599
	$ 83,319	$ 91,439

Included in equipment are assets under capital leases with a cost of $10,973,500 (2000 - $7,569,400) and accumulated amortization of $845,000 (2000 - $98,000) (Note 7).

Amortization on capital assets under development totaling $5,405,700 (2000 - $16,605,000) will commence when they are put in productive use.

Interest capitalized on capital assets during the year was $76,000 (2000 - $335,000).

Included in accumulated amortization is $14,724,000 (2000 - $Nil) related to the impairment in the carrying value of equipment ($12,454,000; 2000 - $Nil) and leasehold improvements ($2,270,000; 2000 - $Nil) (Note 15).

Amortization expense related to capital assets during the year was $6,329,000 (2000 - $4,106,000).

6. GOODWILL AND OTHER ASSETS

	2001	2000
Goodwill, less accumulated amortization of $1,779,000 (2000 - $1,088,000)	$ 27,856	$ 26,113
Licence fees, less accumulated amortization of $796,000 (2000 - $183,000)	22,336	22,669
Pre-operating expenses, less accumulated amortization of $7,862,000 (2000 - $112,000)	1,054	8,356
Future income tax asset (Note 12)	1,532	1,808
Non-interest bearing stock purchase loans to employees	1,486	1,852
Deferred charges and other, less accumulated amortization of $492,000 (2000 - $263,000)	1,241	1,114
	$ 55,505	$ 61,912

The non-interest bearing stock purchase loans to employees are full recourse, have as collateral a pledge of the related shares purchased and other security and are required to be repaid over a maximum of ten years. The market value of shares and other collateral pledged as security for these loans at December 31, 2001 was $1,435,300.

Amortization on licence fees under development totaling $2,699,000 (2000 - $2,341,000) will commence when they are put in productive use.

Interest capitalized during the year related to licences was $163,000 (2000 - $708,000).

Included in accumulated amortization is $6,717,000 (2000 - $Nil) related to an impairment in the carrying value of pre-operating expenses (Note 15).

Amortization expense related to goodwill and other assets during the year was $2,515,000 (2000 - $1,040,000).

7. BANK INDEBTEDNESS AND LONG-TERM DEBT

	2001	2000
BANK INDEBTEDNESS		
Canadian dollar (BA + 1.125%)	**$ 14,159**	$ 27,571
U. S. dollar (Prime + 0.375%)		
(December 31, 2001 - U.S.$11,091,000;		
2000 - U.S.$1,821,000)	**17,634**	2,731
Pounds Sterling (Base rate + 1%)		
(December 31, 2001 - £8,529,000; 2000 - £6,559,000)	**19,753**	14,713
	$ 51,546	$ 45,015

LONG-TERM DEBT

Interest Rates	Repayment Terms	Maturity Dates	2001	2000
Term loans				
BA + 1.375%	Quarterly	April 2004	**$ 49,350**	$ 45,000
7.2%	Annually	August 2010	**19,000**	20,000
Base rate + 1%	Quarterly	February 2005	**10,751**	13,618
7%	Semi-annually	March 2005	**10,274**	12,059
Base rate + 1.4%	Quarterly	July 2011	**7,527**	8,973
Base rate + 2%	Quarterly	Retired	**--**	2,355
0% to 9.5%	Monthly	Various to July 2008	**1,752**	1,795
Capital lease obligations				
7.44%	Monthly	July 2011	**5,594**	5,608
Base rate + 1.25%	Monthly	April 2007	**2,909**	--
7.5% to 8.6%	Monthly	Various to May 2008	**1,431**	1,699
Unsecured promissory note 8%	Quarterly	April 2003	**3,046**	4,891
Total long-term debt			**111,634**	115,998
Less: Current portion			**17,374**	22,413
			$ 94,260	$ 93,585

7. BANK INDEBTEDNESS AND LONG-TERM DEBT *(cont'd)*

COLLATERAL

As collateral for the Canadian and U.S. dollar bank indebtedness and the BA + 1.375% term loan the Company has provided a general security agreement creating a first ranking mortgage security interest over certain property and equipment and a general assignment of specified receivables and inventory.

As collateral for the Pounds Sterling bank indebtedness, the Base rate + 1% term loan, the Base rate + 1.4% term loan, the 7.44% capital lease obligation and the Base rate + 1.25% capital lease obligation, the Company has provided a charge over specific freehold property and a floating charge debenture over specified assets.

As collateral for the 7.2% term loan the Company has provided a general security agreement over specified equipment and inventory.

As collateral for the 7% term loan the Company has pledged licences with a net book value of $22,336,000.

Included in the 0% to 9.5% term loans and the 7.5% to 8.6% capital lease obligations are unsecured facilities of $1,845,000 (2000 - $1,946,000) and facilities of $1,338,000 (2000 - $1,548,000) secured by real estate and equipment.

FOREIGN CURRENCY

Long-term debt included above denominated in foreign currencies and the Canadian dollar equivalent is as follows:

		2001		2000
U.S. dollar debt - U.S.$7,205,000 (2000 - U.S.$8,841,000)	$	**11,456**	$	13,261
Pounds Sterling debt - £11,903,000 (2000 - £14,069,000)		**27,567**		31,558
	$	**39,023**	$	44,819

7. BANK INDEBTEDNESS AND LONG-TERM DEBT *(cont'd)*

		2001		2000
Interest				
Interest on short-term debt	$	**4,902**	$	3,812
Interest on long-term debt		**8,075**		6,674
	$	**12,977**	$	10,486

Interest paid during the year was $12,762,000 (2000 - $10,794,000).

The applicable variable interest rates at December 31, 2001 were: Bankers' Acceptance ("BA") - 2.2% (2000 - 5.8%), LIBOR - 1.9% (2000 - 6.6%), U.S. Prime - 4.75% (2000 - 9.5%) and Base rate - 5.0% (2000 - 6.0%).

At December 31, 2001 the Company had in place an interest rate swap agreement to exchange variable interest rates on its Canadian bank indebtedness and BA + 1.375% term loan for fixed interest rates (Note 11).

REPAYMENT REQUIREMENTS

As at December 31, 2001 principal repayment requirements over the next five years are as follows:

2002	$17,374
2003	21,818
2004	41,136
2005	5,423
2006	2,864

Included in the above repayment requirements are annual minimum lease payments under capital lease obligations of: 2002 - $1,118,000; 2003 - $1,330,000; 2004 - $1,319,000; 2005 - $1,173,000; 2006 - $1,195,000.

At December 31, 2001 the Company had in place short-term lines of credit totaling $71,853,000 (2000 - $65,896,000) including $23,160,000 or £10,000,000 denominated in Pounds Sterling (2000 - $17,946,000 or £8,000,000). Availability of these lines is based on percentages of certain receivables and inventory.

Outstanding borrowings and letters of credit totaled $54,524,000 including $22,481,000 or £9,707,000 denominated in Pounds Sterling at December 31, 2001 (2000 - $46,082,000 including $15,635,000 or £6,970,000).

8. OTHER CREDITS

	2001	2000
Deferred government assistance, less accumulated amortization of $878,000 (2000 - $514,000)	$ 10,039	$ 6,680
Accrued pension benefit liability (Note 18)	3,672	3,017
Future income tax liability (Note 12)	5,146	2,257
Deferred foreign exchange loss	(609)	(67)
	$ 18,248	$ 11,887

Amortization related to deferred government assistance during the year was $364,000 (2000 - $300,000).

During the year the Company obtained government grants of $2,000,000 for the purchase of capital assets. The conditions of these grants require the Company to create a predetermined number of jobs. Amounts received and receivable at December 31, 2001 related to these grants were $1,032,000 and $768,000. The Company is contingently liable to repay amounts on a proportionate basis to jobs created.

9. CAPITAL STOCK

AUTHORIZED:

Unlimited number of :
- Common shares
- First preferred shares
- Second preferred shares

ISSUED COMMON SHARES:

	2001		2000	
	Number	Stated Capital	Number	Stated Capital
Balance, beginning of year	28,363	$ 88,996	28,333	$ 88,851
Shares issued to employees for cash				
Share purchase plan	31	147	30	145
Stock option plan	10	48	--	--
Balance, end of year	28,404	$ 89,191	28,363	$ 88,996

9. CAPITAL STOCK *(cont'd)*

Under the employee stock option plan, the Company may grant options to certain officers and employees for up to 2,750,000 common shares. The options may be exercised within a period of ten years from the date of granting of the option at exercise prices equal to the market price of the Company's stock on the date of grant.

Twenty-five percent of the options vest on the date of granting and twenty-five percent vest on each of the three succeeding anniversary dates. Total options vested at December 31, 2001 were 1,944,000 (2000 - 1,405,000) at a weighted average exercise price of $7.55 (2000 - $7.74).

A summary of the status of the Company's employee stock option plan is as follows:

	Number	Weighted Average Exercise Price	Expiry Date
Balance, December 31, 2000	2,335	$ 7.23	2008-2010
Granted			
June 2001	30	6.25	2011
December 2001	72	4.50	2011
Exercised			
June 2001	(10)	4.79	
Forfeited			
June 2001	(28)	6.83	
August 2001	(42)	8.45	
Balance, December 31, 2001	2,357	$ 7.13	

The following summarizes information about the Company's employee stock option plan at December 31, 2001.

	Options Outstanding			Vested Options	
Range of Exercise Prices	Number	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
$3.70 - $5.15	745	8.1	$ 4.43	438	$ 4.56
$6.25 - $8.50	1,612	6.7	8.38	1,506	8.42
	2,357		$ 7.13	1,944	$ 7.55

Additionally, 1,375,000 common shares have been reserved under an employee share purchase plan. Total common shares issued at December 31, 2001 under this plan were 93,000 (2000 - 62,000).

10. FOREIGN CURRENCY

	2001	2000
CURRENCY TRANSLATION ADJUSTMENT		
Balance, beginning of year	$ **(2,961)**	$ (1,972)
Translation adjustment during year	**1,880**	(989)
Balance, end of year	$ **(1,081)**	$ (2,961)

YEAR-END EXCHANGE RATES

Balance sheet accounts denominated in foreign currencies and translated at year-end exchange rates have been translated to Canadian dollars at the following rates:

	2001	2000
U.S. Dollars	**1.59**	1.50
U.K. Pounds Sterling	**2.32**	2.24

11. FINANCIAL INSTRUMENTS

The carrying values of the primary and derivative financial instruments of the Company, with the exception of long-term debt, approximate fair values due to the short term maturities and normal trade credit terms of those instruments.

The fair value of long-term debt, which approximates carrying value, has been estimated based upon the present value of expected cash flows at the rates available to the Company for debt with similar terms and remaining maturities.

The Company provides services and sells its products to many customers across different geographic areas. No customer accounts for more than 10% of the Company's sales. Three customers represent 22% (2000 - 19%) of sales and 15% (2000 - 5%) of receivables. Due to the long-standing relationships and contractual arrangements the Company is not unusually concerned with the credit risk related to these customers.

The Company operates under various licensing arrangements with original equipment manufacturers and associated distributors for the supply of parts for its various product lines. Purchases from three parts suppliers during the year account for approximately 31% (2000 - 27%) of operating expenses.

11. FINANCIAL INSTRUMENTS *(cont'd)*

At December 31, 2001 the Company had outstanding an interest rate swap transaction (the "Swap Transaction") with a Canadian chartered bank. The Swap Transaction was entered into on December 14, 2000 and expires on December 14, 2002. It involves the exchange of three-month bankers' acceptance floating interest rates for fixed interest rates of 5.57% per annum. As at December 31, 2001 the notional amount of the Swap Transaction was $25,000,000. The estimated fair value of the Swap Transaction at December 31, 2001 was $(803,000) (2000 - $69,000).

12. INCOME TAXES

	2001	2000
(Loss) earnings before income taxes	**$ (8,783)**	$ 31,545
Combined federal and provincial statutory income tax rates	**42%**	43%
Income tax calculated at statutory rates	**(3,689)**	13,564
Increase (decrease) in taxes resulting from:		
Lower tax rate on earnings of subsidiaries	**2,196**	(2,851)
Benefit not recognized on loss carryforwards and other deductible differences	**6,898**	(521)
Difference between rate of expected future reversal of temporary differences and current year rate	**(404)**	--
Amortization of goodwill	**262**	246
Other permanent differences	**(1,095)**	134
Capital tax	**700**	675
Other	**(141)**	(367)
Provision for income taxes	**$ 4,727**	$ 10,880
The provision includes:		
Current income taxes	**$ 1,627**	$ 8,190
Future income taxes:		
(Recovery) expense related to the origination and reversal of temporary differences	**(607)**	2,690
Expense related to the write-down of previously recognized tax assets	**3,707**	--
	$ 4,727	$ 10,880

Income tax paid during the year was $7,748,000 (2000 - $6,953,000).

12. INCOME TAXES *(cont'd)*

Significant components of the Company's future tax assets and liabilities as of December 31 are as follows:

	2001	2000
Future tax liabilities		
Tax amortization in excess of accounting amortization	$ 7,481	$ 4,765
Deferral of profit on work in progress	2,437	2,781
Deferred costs	576	413
Other	1,556	1,426
Total future tax liabilities	12,050	9,385
Future tax assets		
Tax goodwill	2,794	3,068
Post-employment obligation	1,530	1,177
Warranties and other reserves	100	1,127
Loss carryforwards	1,574	1,025
Total future tax assets	5,998	6,397
Net future tax liabilities	$ 6,052	$ 2,988
Distributed as follows:		
Current future income tax liability	$ 2,438	$ 2,539
Long-term future income tax liability	5,146	2,257
Long-term future income tax asset	(1,532)	(1,808)
	$ 6,052	$ 2,988

At December 31, 2001, the Company has net loss carryforwards of $22,355,000 for tax purposes that expire as follows:

2006	$ 114
2007	620
2008	606
2019	2,331
2020	12,455
2021	6,229
	$ 22,355

12. INCOME TAXES *(cont'd)*

A future income tax asset has not been recognized by the Company on the following items:

	2001	2000
Net loss carryforwards	$ **17,982**	$ 2,633
Other deductible differences	**31,970**	23,874
	$ **49,952**	$ 26,507

At the tax rates substantively enacted at the balance sheet date, the unrecorded future tax asset on the above noted items is $6,294,000 in respect of net loss carryforwards and $12,129,000 in respect of other deductible differences. These tax assets may be recognized in future years, at the substantively enacted tax rate then in effect, based upon a re-assessment of the likelihood that the benefit will be realized.

13. PER SHARE INFORMATION

	2001	2000
Weighted average common shares used in the calculation of basic earnings per share	**28,381**	28,346
Incremental common shares calculated in accordance with the treasury stock method	**--**	34
Weighted average common shares used in the calculation of diluted earnings per share	**28,381**	28,380
Basic and diluted (loss) earnings per share	$ **(0.48)**	$ 0.73

Options to purchase 1,633,300 common shares were outstanding at December 31, 2001 (2000 - 1,642,500) but were not included in the computation of diluted (loss) earnings per share because the exercise prices of the options were greater than the average market price of the common shares during the year. Additionally, 683,900 options (2000 - Nil) were excluded from the computation of diluted earnings per share because they created an anti-dilutive effect.

14. CHANGE IN NON-CASH WORKING CAPITAL

	2001	2000
Receivables	$ (9,047)	$ (3,590)
Work in progress	15,049	(18,900)
Inventory	(6,116)	(20,551)
Prepaid expenses	226	147
Payables and accruals	(20,677)	33,569
Deferred revenue	7,074	(863)
Income taxes payable	(6,120)	1,237
Net use of cash	$ (19,611)	$ (8,951)

15. ASSET IMPAIRMENT CHARGE

The Company recorded a $31,487,000 charge during the year in the fixed-wing segment arising from the events occurring on September 11th and the resulting impact on the Company's long-term development plans. This amount consists of a charge for the impairment in the carrying value of capital assets ($14,724,000), pre-operating expenses included in other assets ($6,717,000) and working capital ($10,046,000) including a provision for work in progress and inventory and a provision for related costs.

16. SEGMENTED INFORMATION

The Company provides services through two business segments, fixed-wing and helicopter. The segments derive revenue principally from providing repair and overhaul services on gas turbine engines, components and helicopter airframes. The Company evaluates business segment performance based on earnings from operations before asset impairment charge. The accounting policies of the segments are the same as those described in the summary of significant accounting policies.

The fixed-wing segment includes Atlantic Turbines International ("ATI") operating in Summerside, Prince Edward Island; Sigma Aerospace ("Sigma") operating in Croydon, United Kingdom; and Alameda Aerospace ("Alameda") operating in Alameda, California.

The helicopter segment includes ACRO Aerospace ("ACRO") operating in Richmond, British Columbia and Helipro operating in Langley, British Columbia and Bellingham, Washington.

Both segments have smaller regional service facilities and sales and marketing representation in various locations throughout the world.

16. SEGMENTED INFORMATION *(cont'd)*

2001

	Segments			
	Fixed-wing	Helicopter	Corporate and other	Total
Revenue from external customers	$ 185,766	$ 161,217	$ --	$ 346,983
Earnings before undernoted items	$ 20,437	$ 28,451	$ (4,727)	$ 44,161
Amortization	(5,293)	(2,625)	(562)	(8,480)
Earnings from operations before asset impairment charge	15,144	25,826	(5,289)	35,681
Asset impairment charge	31,487	--		31,487
Earnings from operations	$ (16,343)	$ 25,826	$ (5,289)	$ 4,194
Assets employed	$ 216,953	$ 151,633	$ 14,602	$ 383,188
Capital and goodwill expenditures	$ 9,922	$ 3,559	$ 676	$ 14,157

2000

	Segments			
	Fixed-wing	Helicopter	Corporate and other	Total
Revenue from external customers	$ 169,741	$ 127,868	$ --	$ 297,609
Earnings before undernoted items	$ 31,656	$ 20,084	$ (4,863)	$ 46,877
Amortization	(1,771)	(2,274)	(801)	(4,846)
Earnings from operations before asset impairment charge	29,885	17,810	(5,664)	42,031
Asset impairment charge	--	--	--	--
Earnings from operations	$ 29,885	$ 17,810	$ (5,664)	$ 42,031
Assets employed	$ 215,145	$ 152,506	$ 35,926	$ 403,577
Capital and goodwill expenditures	$ 25,520	$ 5,124	$ 1,238	$ 31,882

Corporate and other assets include assets under development.

16. SEGMENTED INFORMATION *(cont'd)*

GEOGRAPHIC INFORMATION	2001		2000	
	Revenues	Capital Assets	Revenues	Capital Assets
Canada	$ 75,351	$ 44,664	$ 65,802	$ 40,389
United States	137,957	3,072	113,659	16,497
United Kingdom	21,372	35,583	32,581	34,553
Middle East	32,370	--	29,630	--
Other	79,933	--	55,937	--
	$ 346,983	$ 83,319	$ 297,609	$ 91,439

Revenues are attributed to countries based on location of customers.

REVENUE BY PRODUCT CATEGORY	2001		2000	
Gas turbine engines	$ 235,981	68%	$ 218,347	73%
Components	71,804	21%	54,256	18%
Helicopter airframes	39,198	11%	25,006	9%
	$ 346,983	100%	$ 297,609	100%

17. COMMITMENTS

The Company has commitments with respect to operating leases. As at December 31, 2001 the minimum lease payments required under such leases were $42,141,000 payable as follows:

2002	$ 3,533
2003	3,265
2004	3,460
2005	3,427
2006	3,209
and thereafter	25,247

18. EMPLOYEE PENSION PLANS

The Company maintains defined contribution and defined benefit pension plans for the majority of its employees. The Company's contributions to the defined contribution pension plans are based upon a percentage of gross salaries and for the year ended December 31, 2001 were $1,163,000 (2000 - $909,000).

Information concerning the Company's defined benefit pension plans, in aggregate, is as follows:

	2001	2000
CHANGE IN BENEFIT OBLIGATIONS		
Benefit obligations, beginning of year	**$ 15,276**	$ 14,953
Service cost	**1,488**	1,369
Interest cost	**906**	924
Benefits paid	**(305)**	(400)
Actuarial gain	**--**	(1,014)
Foreign exchange	**466**	(556)
Benefit obligations, end of year	**$ 17,831**	$ 15,276
CHANGE IN PLAN ASSETS		
Fair value of plan assets, beginning of year	**$ 11,529**	$ 11,858
Actual return on plan assets	**(1,202)**	(63)
Employer contributions	**365**	355
Employees' contributions	**334**	335
Benefits paid	**(305)**	(400)
Foreign exchange	**358**	(556)
Fair value of plan assets, end of year	**$ 11,079**	$ 11,529
Funded status	**$ (6,752)**	$ (3,747)
Unamortized transition amounts, amendments	**581**	610
Unamortized net actuarial loss	**2,499**	120
Accrued pension benefit liability	**$ (3,672)**	$ (3,017)

18. EMPLOYEE PENSION PLANS *(cont'd)*

The significant weighted average actuarial assumptions adopted in measuring the Company's defined benefit pension plan costs and obligations are as follows:

	2001	2000
Discount rate	**5.9%**	5.9%
Expected long-term rate of return on plan assets	**6.6%**	6.5%
Rate of compensation increase	**3.7%**	3.7%

The Company's net defined benefit pension plan expense is as follows:

	2001	2000
Current year service cost	**$ 1,488**	$ 1,369
Interest cost	**906**	924
Expected return on plan assets	**(770)**	(805)
Employees' contributions	**(334)**	(335)
Amortization of net transition amounts	**29**	29
Net defined benefit plan expense	**$ 1,319**	$ 1,182



VECTOR AEROSPACE CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

MISSION STATEMENT

Vector Aerospace is committed to increasing profitability by creating higher levels of customer and employee satisfaction.

We will achieve this by:

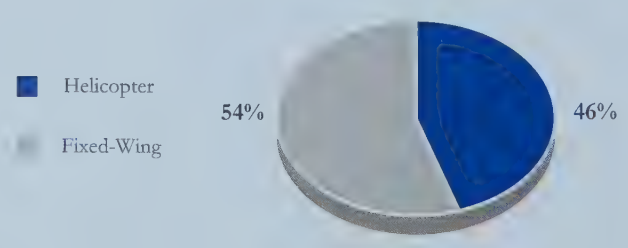
- Having the right products and services available to meet our customers' needs
- Making the most efficient use of available resources
- Delivering quality services on a timely basis and at the best value
- Fostering a positive working environment for our people and treating them with respect
- Putting safety above all else

BUSINESS OF THE COMPANY

BUSINESS SEGMENTS

Through facilities in Canada, the United States and the United Kingdom, Vector provides services to commercial and military customers for various types of aero and aero derivative gas turbine engines, components and helicopter airframes. The Company provides these services through the fixed-wing and helicopter business segments.

Revenue by segment



The fixed-wing segment includes Atlantic Turbines International ("ATI") operating in Summerside, Prince Edward Island; Sigma Aerospace ("Sigma") operating in Croydon, United Kingdom; and Alameda Aerospace ("Alameda") operating in Alameda, California. This segment accounted for 54% of the Company's revenue in 2001 (57% in 2000).

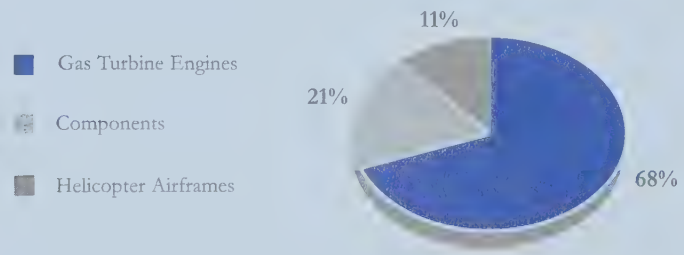
The helicopter segment includes ACRO Aerospace ("ACRO") operating in Richmond, British Columbia and Helipro operating in Bellingham, Washington and Langley, British Columbia. This segment accounted for 46% of the Company's revenue in 2001 (43% in 2000).

Both segments have smaller regional service facilities and sales and marketing representation in various other locations.

DIVERSE REVENUE BASE

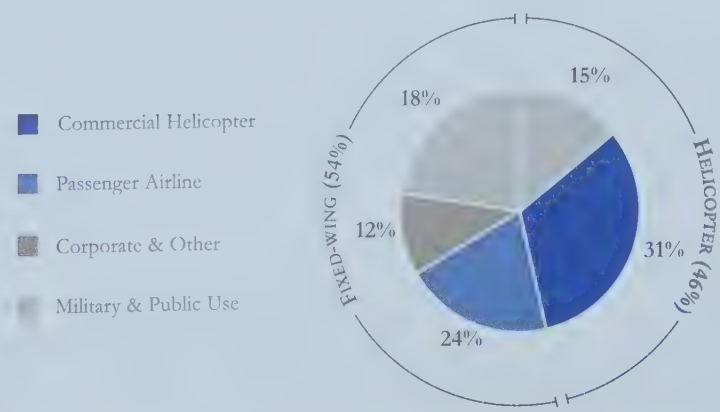
The Company's revenue base is diverse in terms of the products and services it offers, the category of customers it services and the geographical location of these customers.

Revenue by product category



As illustrated above, 68% of the Company's revenue in 2001 was derived from servicing gas turbine engines, 21% from component work such as the repair of fuel pumps, helicopter gear boxes and main rotor heads and the remaining 11% from helicopter airframe repair and refurbishment. The Company services turboprop and turbofan (jet) engines used primarily in military, regional airline and corporate aircraft applications and turboshaft engines used in military and commercial helicopter applications. Capabilities also include servicing industrial gas turbine and auxiliary power unit (APU) engines.

Revenue by category of customer



The Company's major customer categories are as follows:

Military and public use customers operating in both the fixed-wing and helicopter segments represent 33% of the Company's revenue. In the fixed-wing segment, military revenue relates primarily to the overhaul of the Rolls Royce T56 engine which powers the C-130 Hercules aircraft for customers such as the UK Ministry of Defence (MOD) and the Royal Saudi Air Force. Work is also completed for the UK MOD on the Conway engine which powers its fleet of mid-air refueling jets.

The helicopter segment services the Canadian military as well as the militaries of the United States, Venezuela and other countries. In addition, it also provides service to a number of public organizations including police forces, national guards and border patrol units. Service to air ambulance customers is also included in this category. Work includes both the ongoing overhaul of engines and components which directly relate to flight hours and extensive upgrades related to life extension programs for several aircraft types.

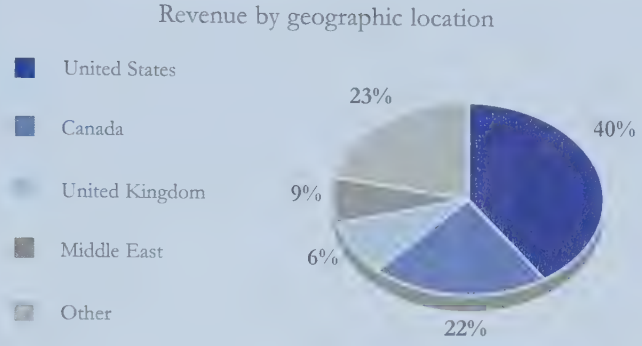
Commercial helicopter customers accounted for 31% of the Company's revenue in 2001. The Company's commercial helicopter capabilities are extensive and cover a wide variety of helicopter types. Customers operate in a variety of commercial sectors including offshore oil and gas, mining, forestry and tourism.

Passenger airline customers accounted for 24% of the Company's revenue in 2001. This primarily relates to regional airline customers operating PW100 turboprop powered aircraft such as the Dash 8, Embraer 120 and ATR 42/72 and to a much lesser extent PT6A powered aircraft. These customers are serviced through the Company's facilities at ATI.

A much smaller portion of the Company's revenue in this customer category relates to work completed at Alameda. This relates to component and APU product lines servicing aircraft such as Boeing 737, DC-9 and MD-80.

Corporate and other customers represented the remaining 12% of the Company's revenue in 2001. The most significant element in this category relates to customers who service corporate clients using PT6A turboprop powered aircraft such as King Air and Beech and JT15D powered business jet aircraft such as the Cessna Citation and Raytheon Beechcraft. It also includes package carriers utilizing these aircraft and Rolls Royce Dart powered aircraft. The Company's industrial gas turbine business is included in this category.

The PT6A product line was introduced at ATI in the fourth quarter of 2000 and the Company has made progress, consistent with expectations, in developing this line during 2001. As well, limited overhaul capabilities were introduced during 2001 on the JT15D business jet engine line with full overhaul capabilities expected to be on line by mid 2002.



The Company's customer base is geographically diverse as well. Customers operating in the United States accounted for 40% of the Company's revenue in 2001 with customers operating in Canada accounting for a further 22%. The remaining 38% is generated from customers operating in the United Kingdom, the Middle East and other countries throughout the world.

No customer accounts for more than 10% of the Company's revenue.

The Company believes that diversity in the products and services it offers and in its customer base is a particular strength of the Company.

BUSINESS STRATEGY

Vector's overall objective is to enhance shareholder value. The Company believes it can achieve this through a long-term strategy directed towards increasing revenues, improving the efficiency and effectiveness of operations, and increasing the return on capital employed.

To achieve long-term sustainable revenue growth Vector is focused on building a comprehensive portfolio of product lines and services to allow it to better serve existing customers and attract new ones. The Company is committed to diversification within its areas of core competitiveness and it believes that a balanced portfolio of product lines and services and a diverse customer mix provides the stable base necessary to pursue a long-term growth strategy.

To execute this growth strategy the Company has acquired new engine licences from original equipment manufacturers (OEM's) and has implemented the associated new product lines. It has completed strategic acquisitions which have provided new product lines and added to the customer base. It has, as well, implemented programs to increase the cross selling of its diverse services to its customer base. The Company expects that it will be able to continue executing its growth strategy in a similar manner over the long-term.

To improve the effectiveness and efficiency of operations the Company employs a continuous improvement program. This program is geared towards improving the processes and systems that have an impact on operating margins and customer service. The continuous improvement program also involves the control of overhead costs and working capital to position the Company for an increase in the revenue base without a proportionate increase in fixed costs and working capital investment. This strategy has been effectively employed in the helicopter segment and has resulted in increased operating earnings and return on capital employed in that segment. The Company expects this strategy to be effective in the fixed-wing segment as revenue growth is achieved on product lines currently in the early stages of development.

The Company is also increasing its emphasis on the development of repair and rework capabilities. Investment to enhance capability in this area is leading to lower costs for customers and improved operating margins for the Company as more high margin work is captured internally.

The Company's near term focus in the fixed-wing segment includes the continued development of its new product lines at ATI. The JT15D business jet engine and the PT6A turboprop lines are primarily used in the expanding corporate aircraft market. The Company is addressing the issue of underperforming assets at Alameda Aerospace by evaluating strategic alternatives for this location. It will also work with regional airline and military customers to address their maintenance requirements as flight hours increase.

In the helicopter segment the Company intends to build on its lead position and continue to focus on growth in revenue and margins. It will market its diverse capabilities, proprietary repair processes and life extension programs to create opportunities with new and existing customers. Increased focus will be placed on military and public use helicopter operators.

The Company intends to balance its growth expectations and the capital commitments required with a plan to reduce debt in 2002. The Company feels that a moderate growth plan coupled with lower debt levels will strengthen the Company for the long-term.

The Company is targeting improved returns on capital employed through a combination of increased earnings and a reduction of the capital employed. Key efforts are focused on reducing the Company's net investment in working capital.

COMPETITIVE ENVIRONMENT

Vector Aerospace is recognized and respected as a global player in an expanding industry for aviation after-market support. The estimated market of US$45 billion is forecast to grow at a moderate rate over the long-term. Aviation after-market support including engine repair and overhaul is performed by aircraft operators, OEM's and by independent service providers such as Vector.

Successful companies in this industry offer a comprehensive range of product lines and services. They are well capitalized and able to attract, develop and retain highly qualified technicians. Success is dependent on building a solid reputation by providing high quality service with quick response times at competitive commercial terms. The Company is competitive and believes it compares quite favourably to its competitors.

The Company believes that it offers the most comprehensive portfolio of helicopter repair and overhaul services in the world for both commercial and military customers. It is a strong competitor in servicing the regional airline market and is developing a growing presence in the quickly expanding corporate aircraft market. The Company is also a key competitor in servicing certain military aircraft, principally aircraft powered by the Rolls Royce/Allison T-56 engine.

IMPACT OF SEPTEMBER 11th

The events of September 11th have impacted the Company's operating environment. The most significant impact is in the fixed-wing segment and relates to work carried out on components and APU's for aircraft such as Boeing 737, DC-9 and MD80. A significant number of these older aircraft types have been grounded since September 11th and the Company does not expect this market to recover in the near term. Regional airlines operating PW100 powered aircraft experienced reduced flight schedules and to a lesser extent, other product lines in the fixed-wing segment were impacted (see "Fourth quarter asset impairment charge").

The Company has no reason to expect any negative impact on its military and public use customers as a result of the events of September 11th. In the fixed-wing segment military customers have indicated that their short-term requirements have been met but a higher and sustained level of military preparedness is expected to increase long-term demand. In the helicopter segment the Company expects increased military and public use aircraft usage and a heightened demand for upgrade services. It is expected that military and public use budgets will be increased to fund this demand.

The Company does not expect any significant adverse effects on its commercial helicopter customers.

Regional airline customers have been negatively impacted but recent flight hours statistics indicate an improving situation. The Company expects gradual improvement as 2002 progresses and it does not expect any long-term negative impact on turboprop aircraft usage. The Company is unaware of any significant move to reduce turboprop fleets and, in fact, many regional airlines have delayed regional jet orders. In many applications turboprop aircraft are more cost effective to operate than jets.

Industry sources indicate that demand for corporate aircraft has increased since September 11th and this trend is expected to continue. The Company's turboprop engine line (PT6A) is fully operational and its new business jet engine line (JT15D) is expected to be on line by mid 2002 with full overhaul capabilities. These product lines service the corporate aircraft market.

RESULTS OF OPERATIONS

REVENUE

Outlined below is the Company's comparative revenue results:

	Revenue (millions, except percentages)			
			Change	
	2001	2000	$	%
Segments				
Fixed-wing	**$ 185.8**	$ 169.7	$ 16.1	9.5%
Helicopter	**161.2**	127.9	33.3	26.0%
Total revenue	**$ 347.0**	$ 297.6	$ 49.4	16.6%

Details by business segment is as follows:

Fixed-wing

Revenue for the year increased by $16.1 million (9.5%) from 2000. Alameda, which had not commenced operations until the current year, accounted for $12.3 million of the increase. Growth on the PT6A and JT15D product lines at ATI added a further $27.4 million. These increases were reduced by lower revenue ($14.6 million) on the PW100 product line at ATI in the third and fourth quarters of this year due to the impact of events associated with September 11th. Revenue was also lower in the year at Sigma ($9.0 million) due in part to expected lower levels of activity on the Conway product line, lower revenue on the T-56 product line and a delay in the issuance of an Airworthiness Directive in relation to the Dart product line.

Helicopter

Revenue for the year increased by $33.3 million (26.0%) due to continued strong growth in military work, strong demand on substantially all product lines including the new PT6T product line at ACRO and continued success on proprietary modification and upgrade programs developed at Helipro.

EARNINGS BEFORE INTEREST, INCOME TAXES, AMORTIZATION AND ASSET IMPAIRMENT CHARGE ("EBITDA *Note 1*")

Outlined below is the Company's comparative EBITDA results:

	EBITDA (millions, except percentages)			
			Change	
	2001	2000	$	%
Segments				
Fixed-wing	$ **20.4**	$ 31.7	$ (11.3)	(35.7%)
% of segmented revenue	***11.0%***	*18.7%*		
Helicopter	**28.5**	20.1	8.4	41.8%
% of segmented revenue	***17.7%***	*15.7%*		
Corporate & other	**(4.7)**	(4.9)	0.2	4.1%
% of total revenue	***1.4%***	*1.7%*		
Total EBITDA	$ **44.2**	$ 46.9	$ (2.7)	(5.8%)
% of total revenue	***12.7%***	*15.8%*		

Details by business segment is as follows:

Fixed-wing

EBITDA for the year decreased by $11.3 million from 2000. This reduction relates to an increase in the fixed cost structure in ATI which can support further growth on the PT6A and JT15D product lines and recovery on the PW100 product line. Alameda did not produce positive EBITDA for the year and reduced activity with lower margins on work completed at Sigma further contributed to reduced EBITDA.

Helicopter

EBITDA for the year increased by $8.4 million from 2000 due to significantly increased revenue, strong gross margins and relatively constant fixed costs.

Corporate and other

Corporate and other expenses as a percentage of consolidated revenues for the year have been reduced to 1.4% from 1.7% for 2000 as these expenses have not increased proportionately with higher activity levels.

AMORTIZATION

Amortization expense increased by $3.6 million from 2000 primarily due to increased investment in capital assets, including licences and capital assets associated with new product lines and the first year amortization of pre-operating expenses associated with Alameda.

FOURTH QUARTER ASSET IMPAIRMENT CHARGE

Operations included in the fixed-wing business segment were significantly impacted by events associated with September 11th. The element of the Company's fixed-wing segment most significantly impacted is the component and APU product lines servicing aircraft such as the Boeing 737, DC-9 and MD 80 carried out at Alameda. These aircraft have been subject to significant fleet reduction and retirement as a result of reduced flight activity and restructuring by operators since September 11th. At the present time the Company does not see the market for these services recovering and as a result has determined that assets employed in the business must be adjusted for impairment. The Company continues to evaluate strategic alternatives for this location.

The $31.5 million fourth quarter asset impairment charge consists of a charge for the impairment in the carrying value of capital assets ($14.7 million), pre-operating expenses included in other assets ($6.7 million) and working capital ($10.1 million) including a provision for work in progress and inventory and a provision for related costs.

INTEREST EXPENSE

Interest expense was $13.0 million (net of capitalized interest of $0.2 million) for the year up $2.5 million from the $10.5 million (net of capitalized interest of $1.0 million) for 2000. This increase was largely the result of incremental interest related to capital asset and working capital investments and reduced capitalized interest on assets under development.

INCOME TAX EXPENSE

The Company is subject to taxation in many jurisdictions throughout the world. The consolidated effective tax rate and tax liability will be affected by a number of factors, including the amount of taxable income and tax rates in particular jurisdictions, tax treaties between jurisdictions and future changes in law. Generally, the tax liability for each legal entity is determined on either a non-consolidated basis or a consolidated basis with other entities incorporated in the same jurisdiction. As a result, the Company may pay income taxes in certain jurisdictions even though it may incur a consolidated net loss, as is the situation in the current year.

In the current year the Company has recorded a net tax expense of $4.7 million consisting of a $6.8 million (30%) tax expense on earnings excluding the asset impairment charge and a tax recovery of $2.1 million on the $31.5 million asset impairment charge. The tax recovery on the asset impairment charge is disproportionately low as the Company has not recognized a potential tax recovery on certain future tax deductions and available loss carryforwards. The effective tax rate on current year earnings excluding the asset impairment charge (30%) is lower than the previous year (34%) as a result of a change in the current year's assessment of valuation provisions required with respect to the realization of future tax assets and due to permanent differences between accounting and taxable income.

NET (LOSS) EARNINGS

The net loss for the year was $13.5 million ($0.48 per share) compared to net earnings of $20.7 million ($0.73 per share) for 2000. Net earnings excluding asset impairment charge [Note 1] was $15.9 million ($0.56 per share) for the year, down $4.8 million ($0.17 per share) from net earnings of $20.7 million ($0.73 per share) for 2000.

SELECTED QUARTERLY FINANCIAL INFORMATION

Comparative selected quarterly financial information is as follows:

Selected Quarterly Financial Information

(millions, except per share amounts)
Unaudited except for totals

	2001				
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Total
Total revenue	$ 87.5	$ 90.6	$ 88.7	$ 80.2	$ 347.0
Net (loss) earnings	$ 4.3	$ 5.4	$ 4.0	$ (27.2)	$ (13.5)
Net (loss) earnings per share*	$ 0.15	$ 0.19	$ 0.14	$ (0.96)	$ (0.48)

	2000				
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Total
Total revenue	$ 71.7	$ 69.5	$ 74.4	$ 82.0	$ 297.6
Net earnings	$ 4.4	$ 5.4	$ 4.8	$ 6.1	$ 20.7
Net earnings per share*	$ 0.15	$ 0.19	$ 0.17	$ 0.22	$ 0.73

* Basic and diluted

The 1st quarter is for the period from January 1 to March 31, the second quarter is for the period from April 1 to June 30, the third quarter is for the period from July 1 to September 30 and the fourth quarter is for the period from October 1 to December 31.

LIQUIDITY AND CAPITAL RESOURCES

OPERATING ACTIVITIES

The Company generated $44.2 million of operating cash flow (before interest, income taxes and changes in non-cash working capital) in the year down $2.7 million from the $46.9 million generated in 2000. Cash used to pay interest totaled $12.8 million, up $2.0 million from the $10.8 million paid in 2000. Cash taxes paid in the current year were $7.7 million, up $0.7 million from the $7.0 million paid in 2000.

The Company increased its investment in non-cash working capital by $19.6 million for the year due to investment required to support new product lines, increased activity levels and a reduction in amounts payable to key suppliers including OEM's.

The net cash generated from operations was $9.9 million in the year, a reduction of cash generated of $9.4 million from the $19.3 million generated in 2000.

FINANCING ACTIVITIES

At December 31, 2001 the Company had in place a $47.5 million (2000 - $47.5 million) operating facility with a syndicate of three Canadian chartered banks, a £10 million or $23.2 million (2000 - £8.0 million or $17.9 million) operating facility with a U.K. bank and other facilities of $1.2 million (2000 - $0.5 million) thereby giving the Company total credit lines of $71.9 million up $6.0 million from the $65.9 million in place at December 31, 2000. Availability of these lines is based on percentages of certain receivables and inventory.

Total debt for the year increased by $2.2 million to $163.2 million at December 31, 2001 from $161.0 million at December 31, 2000. Total debt would have decreased by $1.0 million in the year if foreign currency exchange rates had remained unchanged. Short-term borrowings under the above facilities were $51.5 million at December 31, 2001 and $45.0 million at December 31, 2000. Outstanding letters of credit totaled $3.0 million at December 31, 2001, and $1.1 million at December 31, 2000.

The Company had an increase in long-term borrowings of $10.5 million during the year. The increase in long-term borrowings primarily related to a $7.5 million transfer from short-term bank indebtedness in accordance with the scheduled conversion of a long-term revolving facility to non-revolving term debt and the financing of specialized testing equipment at Sigma. Long-term debt repayments totaled $16.5 million for the year.

Government grants earned during the year totalled $3.7 million. These grants are in relation to the expansion on the new PT6A and JT15D engine lines at ATI.

INVESTING ACTIVITIES

During the year the Company recorded contingent purchase consideration of $2.4 million related to acquisitions completed in 1999. Capital expenditures of $11.7 million were incurred for the year with $7.1 million and $1.5 million of the current year amounts relating to the expansion of the new PT6A and JT15D engine lines at ATI and the acquisition of specialized testing equipment at Sigma. The balance relates to maintenance capital expenditures throughout the Company.

Other asset expenditures of $0.4 million were incurred in the year, down $8.6 million from the $9.0 million incurred in 2000. Current year expenditures relate primarily to proprietary repair development and pre-operating expenses in the helicopter segment.

OTHER

The terms of certain of the Company's debt agreements impose operating and financial limitations on the Company. Such agreements limit, among other things, the Company's ability to increase indebtedness, create liens, make capital expenditures, engage in mergers or acquisitions, sell assets, transfer funds between companies within the Vector group and make dividend payments. These limitations have not hampered the Company's ability to conduct normal operations.

The Company's ability to comply with any of the foregoing operating and financial limitations and with its loan repayment provisions will depend upon its future performance. This will be subject to prevailing economic conditions and other factors, some of which may be beyond the Company's control. As was the case in 2000, it was necessary for the Company to request a waiver of certain financial covenants in place for Sigma Aerospace at December 31, 2001. This waiver has been obtained from the appropriate lender and consequently the Company was in compliance with all financial covenants at year-end.

The Company believes that normal operations will provide sufficient working capital and cash flow to meet the $17.4 million long-term debt repayments scheduled for the upcoming year.

The Company had $1.5 million of capital expenditure commitments at December 31, 2001 primarily related to development expenditures on the new product lines at ATI. Future capital expenditures will be funded from operations.

FOREIGN CURRENCY, INTEREST RATE AND OTHER RISKS

The Company records transactions and prepares its financial statements in Canadian dollars. For the year ended December 31, 2001 the Company maintained operations in Canada, the U.K., and the United States with business conducted in other countries. Foreign operations are considered financially and operationally self-sustaining. Accordingly, the Company's assets and liabilities are translated into Canadian Dollars at year-end exchange rates. Revenue and expense items are translated into Canadian Dollars at monthly exchange rates.

To perform sensitivity analysis, the Company assesses the impact on net earnings due to the impact of hypothetical changes in foreign currency exchange rates and interest rates. Information provided by the analysis does not necessarily represent the actual changes in value that the Company would incur under normal market conditions because, of necessity, all variables other than the specific market risk factor are held constant.

The results of this sensitivity analysis is included below:

FOREIGN CURRENCY EXCHANGE RATE RISK

In the current year 68% (2000 - 64%) of the Company's revenue was denominated in U.S. dollars and 11% (2000 - 14%) was denominated in Pounds Sterling. A significant portion of the Company's expenditures were also denominated in these currencies and hence a natural hedge existed for much of this exposure. However, a net exposure exists on U.S. dollar and Pound Sterling cash flows that can impact earnings as the Canadian dollar exchange rate changes in relation to these currencies. In 2002, it is estimated that a one-cent change in the value of the Canadian dollar in relation to these currencies would impact net income by $0.2 million. Shareholders' equity includes a currency translation adjustment related to the Company's net investment in self-sustaining subsidiaries. A one-cent change in the value of the Canadian dollar in relation to the U.S. dollar and Pound Sterling would have impacted shareholders' equity by an additional $0.4 million at December 31, 2001

The Company does have a policy that permits the hedging of its net foreign currency cash flow. The overall approach to managing these exposures includes identifying and quantifying the exposure position, determining the desired exposure position, and designing an appropriate solution to reduce the exposure. In designing these solutions the Company may, from time to time, use financial derivatives. The Company's derivative policy prohibits the use of derivative products for speculative purposes. The Company has a policy of only entering into derivative transactions with chartered banks.

There were no foreign exchange derivative products in use at December 31, 2001.

INTEREST RATE RISK

The Company monitors the risk exposure relating to its total debt portfolio. The risk exposure created by floating interest rate debt is managed through interest rate swap transactions with a chartered bank. During the year the Company had two interest rate swap transactions outstanding with a notional value of $25.0 million each for a total of $50.0 million. One of the swap transactions expired in November 2001 with an effective fixed rate of 5.995% plus the Company's stamping fee and the other expires in December 2002 with an effective fixed rate of 5.57% plus the Company's stamping fee. In addition to the swap transactions the Company had fixed interest debt, resulting in the Company having an average of 51% of its debt at fixed interest rates during the year. Subsequent to year-end to take advantage of historically low interest rates the Company entered into additional swap transactions expiring in January 2003 with a total nominal value of $60.0 million with an effective fixed rate of 2.29% plus the Company's stamping fee thereby effectively increasing the percent of fixed interest rate debt to 77% at December 31, 2001. A 1% change in interest rates on floating rate debt with all other variables remaining constant, would result in an approximate $0.2 million impact on net earnings for 2002 after consideration of the swap transactions outstanding as at and subsequent to year end.

OTHER RISKS

The future success of the Company is heavily dependent on the recruitment and retention of key employees. While the industry wide technical personnel shortage has eased as a result of a general decline in activity since September 11th, the Company is meeting the long-term need to attract and develop its human resources in a number of ways, including affiliations with community colleges, in-house training programs and by creating a work environment that wins the support and loyalty of employees. These initiatives are intended to ensure a labor supply required to support continued long-term growth.

The Company competes in an industry with global coverage therefore certain of its customers operate in markets that may be subject to political, social and economic instability. The provision of services in these markets exposes the Company to certain risks including exchange rate risk between the contract currency and the local currency of the market in which the customer operates and the possibility of adverse action by foreign government authorities, including the imposition of currency controls or restrictions on currency remittances.

Future success is also dependent on the retention of major customers. No customer accounts for more than 10% of the Company's sales. The Company's three largest customers represent 22% (2000 - 19%) of sales and 15% (2000 - 5%) of receivables. A long-term contract with one of these customers expires in 2002 and will be re-bid.

It is possible that a continued slowdown in general economic activity and the severity and duration of the industry adjustment to the events of September 11th and the tensions and conflicts arising therefrom could have a greater than anticipated negative impact on the Company's operating results, particularly in the passenger airline category of the fixed-wing segment.

SEASONALITY

The Company does not experience significant fluctuations in earnings due to seasonality.

CHANGE IN ACCOUNTING POLICIES

ACCOUNTING POLICY CHANGE IN 2001

The Canadian Institute of Chartered Accountants has issued a new accounting policy with respect to earnings per share which has been adopted by the Company effective January 1, 2001. The Company has changed from the imputed earnings to the treasury stock method of accounting for diluted earnings per share. In accordance with the treasury stock method diluted earnings per share is computed using the weighted average number of common shares and dilutive common share equivalents. The policy has been applied retroactively and adoption of this standard had no impact on the prior year's diluted earnings per share calculation.

ACCOUNTING POLICY CHANGES SUBSEQUENT TO 2001

Effective January 1, 2002, the Company will be required to adopt the following recommendations under Canadian generally accepted accounting principles ("GAAP"):

GOODWILL AND OTHER INTANGIBLES ASSETS

Under the new policy goodwill will be carried at the unamortized excess of the cost of investments in subsidiaries over the fair value of the identifiable net assets acquired. Amortization of goodwill is no longer permitted but an evaluation for potential permanent impairment is required on an ongoing basis. Transitional provisions provide for an initial impairment charge, if any, to be applied against opening retained earnings. Subsequent to the transition phase any impairment is recorded as a charge to earnings.

As required, the Company will apply the new policy on January 1, 2002, at which time goodwill amortization of $0.7 million per year ($0.5 million after tax) will cease. As well, impairment tests for each reporting unit will be performed in accordance with the new policy. The Company does not anticipate that the initial review will result in an impairment charge.

FOREIGN CURRENCY TRANSLATION

Deferral and amortization of foreign exchange gains or losses on long-term monetary assets or liabilities will no longer be permitted but will be recognized in income as incurred.

The Company will apply the new policy on January 1, 2002. Adoption of this policy will have no material impact on prior years results. All future applicable foreign currency exchange gains and losses will be recognized in income as incurred and disclosed in accordance with the new policy.

STOCK-BASED COMPENSATION

Under the new policy stock-based awards to non-employees and certain awards to employees must be accounted for using a fair value based method of accounting which may result in a compensation expense being recognized in earnings. For awards to employees which do not require application of fair value based accounting the new policy permits either the use of fair value based accounting or the use of the intrinsic value method. If the intrinsic value method is used supplemental pro-forma note disclosure of net earnings and earnings per share, as if fair value based accounting had been applied to all employee stock-based compensation awards, is required.

The Company does not grant stock-based awards to non-employees or grant awards to employees that must be accounted for at fair value and will continue to use the intrinsic value method for employee stock based awards. Therefore, adoption of this new policy is not expected to have an impact on the Company's financial statements. Pro-forma disclosure will be provided in accordance with the new policy.

OUTLOOK

SHORT-TERM

In the short-term results for the fixed-wing segment are expected to fall short of previous comparable periods particularly on the PW100 product line at ATI as the Company is not expecting an immediate recovery of activity from passenger airline customers. As well, the fixed-wing segment is expected to experience continued negative results from Alameda. These shortfalls and potential shortfalls at Sigma as a result of a continued slowdown in the T-56 product line will more than offset increases in activity in the PT6A and the new JT15D product lines at ATI.

Continued strong results are expected from the helicopter segment consistent with 2001. The helicopter segment will continue to leverage its reputation and competitive position to create opportunities with new and existing customers including military and public use helicopter operators.

The Company believes that it can reduce debt to strengthen the Company for the long-term.

MEDIUM TO LONG-TERM

The Company will focus on achieving its mission and executing its business strategy of enhancing shareholder value through controlled and disciplined growth within its areas of core competitiveness, improved efficiency and effectiveness of operations and through a focus on increasing return on capital employed.

MANAGEMENT'S DISCUSSION AND ANALYSIS

of Financial Condition and Results of Operations

FORWARD-LOOKING STATEMENTS

Management's discussion and analysis of financial conditions and results of operations contains various forward-looking statements. These statements contain words or phrases such as "anticipate", "could", "expect", "seek", "may", "intend", "will", "look forward", "outlook", "believes", "targeting", "feel" and similar expressions that are based on current expectations, estimates, projections, and targets related to the markets in which Vector Aerospace Corporation operates and with respect to its financial condition, results of operations, and the general business of the Company. By their very nature, forward-looking statements involve inherent risks and uncertainties that the forecasts, targets and assumptions will not be achieved. Indeed, the forward-looking statements may differ materially from actual results of events.

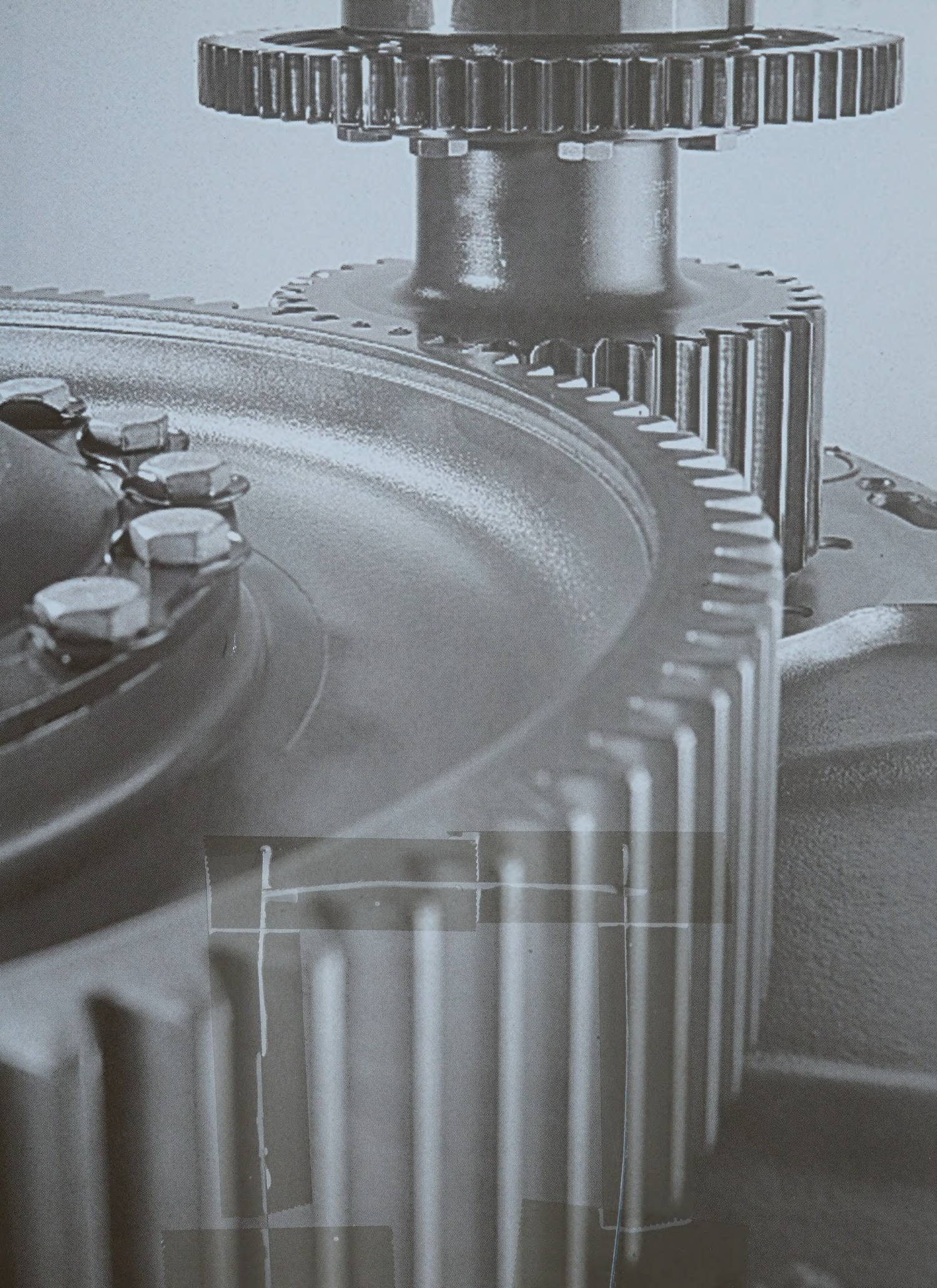
Readers are cautioned, therefore, not to place undue reliance on these statements as a number of important factors could cause actual results to differ materially from those expressed in such forward-looking statements, including, without limitation, the possibility that the severity and duration of the industry adjustment to the events of September 11th and the tensions and conflicts arising therefrom will have a greater effect on the Company than currently anticipated. Readers should also refer to the Annual Information Form of the Company for further detailed information. The Company disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

Note 1
NON-GAAP MEASURES

EBITDA is defined by the Company as earnings from operations before interest, income taxes, amortization and asset impairment charge (earnings from operations before amortization and asset impairment charge).

Net earnings excluding asset impairment charge is defined by the Company as net earnings before the fourth quarter asset impairment charge of $31.5 million (which consists of a charge for the impairment in the carrying value of capital assets, pre-operating expenses and working capital) and the associated tax recovery of $2.1 million for a net earnings adjustment of $29.4 million.

The Company has included information concerning EBITDA because it believes this measure is used by certain investors as a measure of financial performance. The Company has included information concerning net earnings excluding asset impairment charge because it believes the asset impairment charge and the associated tax recovery are unusual in nature and because it believes that this measure is also used by certain investors as a measure of continuing financial performance. Although the Company believes that each of these measures are used by certain investors, (and the Company has included them for this reason), these measures are not measures of financial performance under Canadian generally accepted accounting principles ("GAAP"). As well, these measures have no standardized meaning prescribed under GAAP and are unlikely to be comparable to similarly titled measures used by other companies. These measures should not be construed as alternatives to cash flow from operations, earnings from operations or net (loss) earnings as determined in accordance with GAAP as measures of liquidity or earnings.



INVESTOR INFORMATION

The Company's common shares are listed on the Toronto Stock Exchange under the symbol RNO. The following table sets forth the reported high, low and closing share prices, as well as volumes of the shares traded for the periods indicated.

TORONTO STOCK EXCHANGE

2001 Fiscal Year	High	Low	Close	Volume
First Quarter	5.00	4.05	5.00	4,057,251
Second Quarter	7.10	4.80	6.36	3,307,044
Third Quarter	6.75	4.40	4.60	2,265,340
Fourth Quarter	5.25	4.10	4.65	1,013,383

TRANSFER AGENT AND REGISTRAR

Requests for information covering dividend payments, lost share certificates, address changes or other shareholder information should be directed to:

COMPUTERSHARE TRUST COMPANY OF CANADA
1465 Brenton Street
Halifax, Nova Scotia
Canada, B3J 3S9
Telephone: (902) 420-2211
Facsimile: (902) 420-2764
email: caregistryinfo@computershare.com

ANNUAL MEETING

The Annual Meeting of the Shareholders of Vector Aerospace Corporation will be held:
Thursday, April 25, 2002 at 4:00 p.m.
Royal York Hotel, Territories Room
100 Front Street West
Toronto, Ontario
Canada

CORPORATE INFORMATION

AUDITORS:

ERNST & YOUNG LLP
Chartered Accountants
The Fortis Building, 7th Floor
139 Water Street, St. John's, Newfoundland
Canada A1C 1B2

PRIMARY BANKERS:

BANK OF NOVA SCOTIA
245 Water Street, St. John's, Newfoundland
Canada A1C 5B5

BANK OF SCOTLAND
123 St. Vincent Street
Glasgow, G2 5EA, Scotland

NATIONAL BANK OF CANADA
Suite 200, Two Bentall Centre
555 Burrard Street, Box 280
Vancouver, British Columbia
Canada V7X 1M7

BANK OF TOKYO-MITSUBISHI
(Canada)
Royal Bank Plaza, South Tower
Suite 2100, Toronto, Ontario
Canada M5J 2J1

TRANSFER AGENT:

COMPUTERSHARE TRUST COMPANY OF CANADA
1465 Brenton Street, Halifax, Nova Scotia
Canada B3J 3S9

BOARD OF DIRECTORS:

MARK D. DOBBIN
Chairman & CEO
Vector Aerospace Corporation
St. John's, Newfoundland

JAMES A. GOOD
Chairman & CEO
James Good Capital Co. Ltd.
Toronto, Ontario

HON. FRANK D. MOORES, LL.D.
Chairman & CEO
SSF (Holdings) Inc.
Elgin, Ontario

BASILE E. PAPAEVANGELOU
TEC (The Executive Committee)
Chairman

HON. DAVID R. PETERSON, P.C., Q.C.
Cassels Brock & Blackwell LLP
Toronto, Ontario

DAVID E. ROFFEY
President & CEO
Maple Financial Group Inc.
Toronto, Ontario

COMMITTEE MEMBERS:

AUDIT:
Basile E. Papaevangelou, Chairman
James A. Good
Hon. David R. Peterson

HUMAN RESOURCES & CORPORATE GOVERNANCE:
Hon. Frank D. Moores, Chairman
David E. Roffey

OFFICERS:

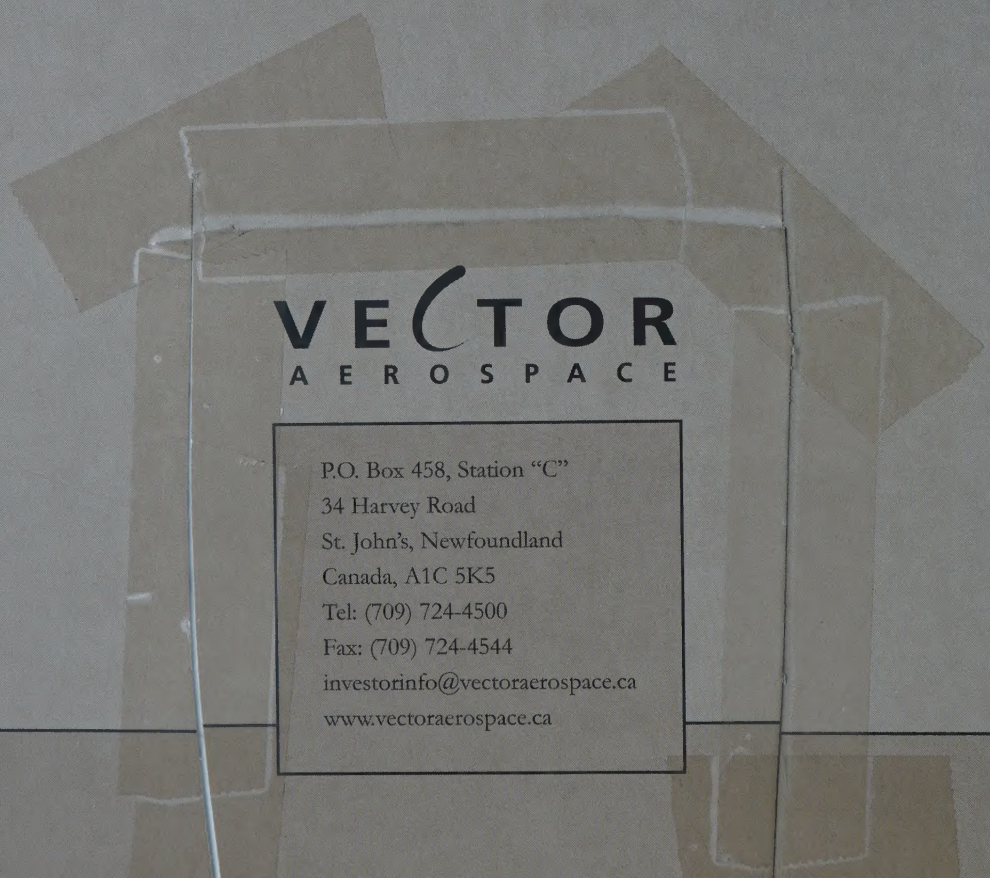
MARK D. DOBBIN
Chairman & CEO

PAUL J. CONWAY
President & Chief Operating Officer

MAXWELL PARSONS, CA
Vice President, Chief Financial Officer & Secretary

JEANNIE M. FRENCH, CA
Assistant Secretary

RICK DAVIS, CA
Corporate Controller



VECTOR
AEROSPACE

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